

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 PA-02 ABF-01 FSE-00 /106 W
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P 312017Z MAY 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 7572
INFO AMCONSUL MONTREAL
ALL OTHER CANADIAN CONSULATES POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 02744

DEPT. PASS CEA, FRB, TREAS

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING MAY 26.

1. SUMMARY: TRADE SURPLUS NARROWED SHARPLY TO CDOLS 179 MILLION IN APRIL FROM REVISED SURPLUS OF CDOLS 771 MILLION IN MARCH. AFTER DECLINING IN MARCH, IMPORTS SHOT UP BY NEARLY 30 PERCENT IN APRIL, SWAMPING STRONG EXPORT PERFORMANCE. CUMULATIVE AUTO TRADE DEFICIT IN 1978 FAR BELOW LEVEL OF COMPARABLE PERIOD LAST YEAR, DESPITE WIDENING OF DEFICIT IN APRIL. TRAVEL DEFICIT INCREASED SUBSTANTIALLY IN MARCH, IN PART DUE TO SEASONAL AND OTHER SPECIAL FACTORS. WEAKNESS OF PRODUCTION ACTIVITY IN FIRST QUARTER CONFIRMED BY DECLINE OF REAL DOMESTIC PRODUCT IN MARCH. INDEX OF INDUSTRIAL EMPLOYMENT ALSO DECLINED IN MARCH AND GROWTH IN AVERAGE HOURLY EARNINGS DECELERATED. ADVANCE IN RETAIL SALES WANED IN FIRST QUARTER. BUILDING PERMITS DECLINED IN FEBRUARY. RECENT DECLINE IN INTEREST RATES REVERSED IN WEEK. CANADIAN DOLLAR WEAKENED SLIGHTLY. END SUMMARY.

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2. TRADE BALANCE: SEASONALLY ADJUSTED TRADE BALANCE NARROWED SHARPLY TO CDOLS 179 MILLION IN APRIL FROM REVISED SURPLUS OF CDOLS 771 MILLION IN MARCH. IMPORTS, AFTER FALLING BY 10.4 PERCENT IN MARCH, SURGED UPWARD BY 29.4 PERCENT TO CDOLS 4.59 BILLION. EXPORTS ADVANCED BY 10.5 PERCENT IN APRIL TO CDOLS 4.77 BILLION COMPARED WITH IN-

CREASE OF ONLY 2 PERCENT IN MARCH.

3. IN THREE MONTHS TO APRIL, EXPORTS TOTALLED CDOLS 13.3 BILLION, AN INCREASE OF 15.5 PERCENT FROM NOVEMBER-JANUARY TOTAL. OVER THIS PERIOD, IMPORTS WERE UP 14 PERCENT TO CDOLS 12.7 BILLION. TRADE SURPLUS IS NOW RUNNING AT SEASONALLY ADJUSTED ANNUAL RATE OF CDOLS 4.7 BILLION, DOWN SUBSTANTIALLY FROM CDOLS 5.5 BILLION ANNUAL RATE IN FIRST QUARTER.

4. AUTO TRADE: ACCORDING TO PRELIMINARY, UNOFFICIAL STAT-CAN STATISTICS, CANADIAN AUTO TRADE DEFICIT WITH THE U.S. IN FOUR MONTHS TO APRIL WAS CDOLS 611 MILLION AT AN ANNUAL RATE COMPARED WITH ANNUAL RATE OF CDOLS 1.1 BILLION IN FIRST FOUR MONTHS OF 1977, DESPITE WIDENING OF DEFICIT IN APRIL. DEFICIT WAS CDOLS 121 MILLION IN APRIL COMPARED WITH MARCH DEFICIT OF CDOLS 8.5 MILLION. VEHICLE IMPORTS TOTALLED CDOLS 416.4 MILLION. EXPORTS AND IMPORTS OF PARTS WERE CDOLS 385.4 MILLION AND CDOLS 735.9 MILLION RESPECTIVELY.

5. TRAVEL ACCOUNT: TRAVEL DEFICIT (NSA) WAS CDOLS 918 MILLION IN FIRST QUARTER OF 1978, UP FROM A DEFICIT (NSA) OF CDOLS 840 MILLION IN FIRST QUARTER 1977. DEFICIT WITH U.S. TOTALLED DOLS 608 MILLION AND WITH OTHER COUNTRIES, CDOLS 310 MILLION. LARGE FIRST QUARTER DEFICIT (ANNUAL RATE OF CDOLS 3.7 BILLION) REFLECTS USUAL SEASONAL FACTORS
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AS WELL AS FACT THAT EASTER VACATION (A HEAVY TRAVEL PERIOD) FELL IN MARCH THIS YEAR RATHER THAN IN APRIL. TRAVEL RECEIPTS IN FIRST QUARTER DECLINED BY 35 PERCENT TO CDOLS 204 MILLION FROM FOURTH QUARTER 1977, WHILE PAYMENTS WERE UP 76 PERCENT TO CDOLS 1.1 BILLION.

6. ECONOMIC INDICATORS:

-- SEASONALLY ADJUSTED REAL DOMESTIC PRODUCT (RDP) DROPPED 0.2 PERCENT TO 129.9 IN MARCH. MANUFACTURING PRODUCTION SHOWED 0.5 PERCENT ADVANCE, WHILE ACTIVITY IN MOST OTHER SECTORS DECLINED. IN FIRST QUARTER OF 1978, RDP ROSE AT SEASONALLY ADJUSTED ANNUAL RATE OF 2.4 PERCENT, OFF FROM 2.8 PERCENT ANNUAL RATE OF INCREASE IN FOURTH QUARTER LAST YEAR. GROWTH OF RETAIL TRADE FELL TO 5.6 PERCENT RATE IN QUARTER FROM ANNUAL RATE OF 8 PERCENT IN PREVIOUS QUARTER (ALSO SEE BELOW).

-- PRELIMINARY STATCAN ESTIMATES INDICATE THAT INDEX OF INDUSTRIAL EMPLOYMENT FELL 0.1 PERCENT TO 144.9 IN MARCH. MANUFACTURING WAS LONE SECTOR RECORDING EMPLOYMENT GAIN. HOWEVER, AVERAGE WEEKLY HOURS IN MANUFACTURING DECLINED IN MARCH. IN FIRST QUARTER OF 1978, AVERAGE HOURLY EARNINGS IN MANUFACTURING ADVANCED AT SEASONALLY ADJUSTED ANNUAL

RATE OF 6.7 PERCENT, COMPARED WITH RISE OF 7.4 PERCENT IN FINAL QUARTER LAST YEAR. FIRST QUARTER RISE IN AVERAGE WEEKLY EARNINGS IN MANUFACTURING WAS ONLY 4.7 PERCENT DUE TO FALL IN AVERAGE HOURS WORKED.

-- SEASONALLY ADJUSTED (SA) RETAIL SALES STOOD AT CDOLS

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5.6 BILLION IN MARCH, A 0.6 PERCENT INCREASE FROM REVISED FEBRUARY LEVEL. GROWTH OF RETAIL SALES IN MARCH REPRESENTS DECELERATION FROM 2.5 PERCENT INCREASE REGISTERED IN FEBRUARY, WHICH IN TURN FOLLOWED DECLINE IN JANUARY. RETAIL SALES (SA) WERE UP 2.8 PERCENT IN FIRST QUARTER OVER THE PREVIOUS QUARTER, DOWN FROM A 4.3 PERCENT ADVANCE IN THE FOURTH QUARTER OF 1977. RELATIVELY SLOW GROWTH OF NOMINAL RETAIL SALES IN FIRST QUARTER CONSISTENT WITH STRONG DECELERATION IN VOLUME OF RETAIL TRADE IN THIS PERIOD SHOWN BY RDP STATISTICS.

-- SEASONALLY ADJUSTED VALUE OF NEW BUILDING PERMITS DECREASED IN FEBRUARY TO CDOLS 893 MILLION FROM CDOLS 1 BILLION RECORDED IN JANUARY. DECLINES WERE REGISTERED FOR RESIDENTIAL AND NON-RESIDENTIAL PERMITS, POINTING TO CONTINUED WEAKNESS IN BUSINESS INVESTMENT AS WELL AS IN HOUSING STARTS IN MONTHS TO COME.

7. CAPITAL MARKETS: CONDITIONS IN CAPITAL MARKETS ARE BEGINNING TO TIGHTEN. INTEREST RATE IN THREE MONTH TREASURY BILLS WAS 8.13 PERCENT IN WEEK COMPARED WITH 8.07

PERCENT PREVIOUS WEEK. MONEY MARKET INTEREST RATES (AT
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30 DAYS) HAVE JUMPED BY 15 BASIS POINTS. BANK OF CANADA (BOC) HAS APPARENTLY ENGINEERED RISE IN INTEREST RATES THROUGH OPEN MARKET SECURITY SALES. SOME ANALYSTS NOTE THAT BOC HAS ACTED OVER LAST 3 WEEKS TO TIGHTEN MONEY MARKETS, BUT THAT IMPACT ON INTEREST RATES HAS BEEN DELAYED BY FLUSH LIQUIDITY POSITION IN PRIVATE SECTOR AND BY RISE IN CANADIAN DOLLAR IN EARLY MAY WHICH ATTRACTED SHORT TERM FUNDS FROM ABROAD. BOND PRICES ROSE 1.25 POINTS IN WEEK REVERSING A MONTH LONG PERIOD OF PRICE DECLINES.

8. EXCHANGE RATE: CANADIAN DOLLAR DRIFTED LOWER DURING WEEK, DECISIVELY ENDING MINI-RALLY WHICH SAW RATE RISE FROM LOW OF UNDER 87 U.S. CENTS ON APRIL 13 TO JUST OVER 90 CENTS DURING WEEK ENDING MAY 19. DECLINE WAS ATTRIBUTED TO DEMAND FOR U.S. DOLLARS BY FOREIGN SUBSIDIARIES TO MAKE END-MONTH PAYMENTS TO THEIR PARENTS AND TO NARROWING OF TRADE SURPLUS IN APRIL. DOLLAR CLOSED AT 89.53 U.S. CENTS IN WEEK COMPARED WITH PREVIOUS WEEK'S CLOSE OF 89.98 U.S. CENTS. ENDERS

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